

October 1, 1997
via FedEx

Mary L. Cottrell, Secretary
Department of Public Utilities
100 Cambridge Street, 12th Fl.
Boston, MA 02202

Re: New England Power Company
Massachusetts Electric Company
Nantucket Electric Company

Dear Secretary Cottrell:

Enclosed for filing are the following:

1. A petition by New England Power Company ("NEP") pursuant to the terms of the Restructuring Settlement approved by the Department in Docket D.P.U. 96-25, and G.L. c. 164, §§ 76 and 96 for NEP to sell to USGen New England, Inc. ("USGenNE")^{1/} substantially all of NEP's non-nuclear generating assets.
2. A petition for authority by NEP to issue up to \$100 million of financing to support trigger payments for certain purchased power contracts that may be required of NEP under the IPP Contracts Transfer Agreement.
3. New rates by Massachusetts Electric Company ("Mass. Electric") and Nantucket Electric Company ("Nantucket") to reflect the effects of the divestiture on retail rates to customers.

^{1/}USGen New England, Inc. is the new name of the acquiring company, which is referred to as USGen Acquisition Corporation in the original contracts.

Each of the filings are discussed below.

1. Petition for the Sale of Substantially All of NEP's Non-Nuclear Generating Facilities.

Pursuant to the restructuring settlement for Mass. Electric, Nantucket, and NEP that was approved by the Department in Docket D.P.U. 96-25, (the "Settlement"), NEP agreed to divest itself of its non-nuclear generating facilities. This petition implements that commitment.

On August 5, 1997, NEP agreed to sell and USGenNE agreed to purchase substantially all of NEP's non-nuclear generating assets (the "Divestiture Transaction")^{2/} The Divestiture Transaction involves NEP's 18 fossil-fired and hydro-electric power plants, and the transfer of NEP's rights to purchase power under its existing long-term purchase contracts with independent power producers and utilities. In return, USGenNE has agreed to pay \$1.59 billion in cash, or about 145 percent of the net book value of the facilities being sold. Payment of \$225 million of this amount is contingent upon the timing of the introduction of retail choice in New England. Prompt introduction of retail choice maximizes the benefits of the Divestiture Transaction.

The Divestiture Transaction is embodied in several separate contracts which are included in this filing and summarized in Exhibit 1 to the Petition. The contracts include the following:

- A. The Asset Purchase Agreement - under which NEP has agreed to transfer to USGenNE substantially all of its non-nuclear generating assets, excluding only its minority interest in Wyman 4 generating station, and certain diesel units in Gloucester, Newburyport, and Nantucket, Massachusetts.
- B. The Continuing Site/Interconnection Agreement - under which NEP's transmission and generation facilities are separated, and NEP agrees to provide service over its transmission facilities to the Pool Transmission Facilities (PTF).

^{2/}The Divestiture Transaction also includes the purchase of The Narragansett Electric Company's ten percent ownership interest in the Manchester Street Generating Station and the transfer to USGenNE of Narragansett Energy Resources Company ("NERC") stock. NERC is a subsidiary of New England Electric System that has a twenty percent interest in two partnerships that own the Ocean State Power generating project in Rhode Island. Under the transaction, NEES is contributing its equity in NERC to NEP and NEP is transferring the stock to USGenNE. Both Narragansett and NERC are Rhode Island corporations that are not subject to the Department's jurisdiction. To the extent that the acquisition of NERC stock by NEP requires the Department's approval under G.L. c. 164, § 17A that approval is requested in the accompanying petition.

- C. The IPP Contracts Transfer Agreement- under which NEP transfers to USGenNE the rights and obligations of its existing contracts to purchase power from independent power producers and utilities at the prices specified in the power purchase contracts less a fixed discount, which equals \$14.2 million per month for the first half of the period between the closing or “Divestiture Date” and January 31, 2008 and \$12.5 million per month during second half of the period.

Under this contract, NEP may be called upon to make “Trigger Payments” to the power suppliers (or as designated by USGenNE) upon certain Trigger Events which permanently reduce NEP’s payment obligations under the contracts. Trigger Events include assignments of power contracts to USGenNE or buyouts of power contracts. Under this agreement, NEP must have financing authority sufficient to support \$100 million of Trigger Payments, and NEP’s financing petition and the testimony of John Cochrane support that authority.

- D. Wholesale Customer Support Agreements- under which the economic benefits of NEP’s non-requirements power sales are transferred to USGenNE, and USGenNE agrees to supply NEP with the power for these contracts at the same price that NEP receives from its customers.
- E. Wholesale Standard Offer Service Agreements- under which USGenNE agrees to supply Mass. Electric and Nantucket with wholesale standard offer service at the default prices and terms set forth for NEP under the Settlement. This contract assures that Mass. Electric’s standard offer obligations to retail customers in the Settlement approved in Docket D.P.U. 96-25 will be fully honored. A similar contract is in place between USGenNE and The Narragansett Electric Company.
- F. Nuclear Wholesale Power Agreement- under which NEP will sell back to USGenNE output from its nuclear entitlements during the standard offer period.

The Department has jurisdiction and authority to review and approve the Divestiture Transaction under the express terms of the Settlement, under its authority to supervise electric companies pursuant to G.L. c. 164, § 76, and as a sale of property pursuant to G.L. c. 164, § 96. Because both NEP (an electric company under Section 1 of Chapter 164) and USGenNE (which will be an electric company under Section 2 of Chapter 164) are “companies subject to this chapter” under Section 96, the Department should exercise its jurisdiction under that section and approve the Divestiture Transaction as “consistent with the public interest.”

In this case, the Divestiture Transaction is clearly consistent with the public interest. It complies with the express terms of the Settlement, is consistent with the Department’s

procompetitive policies as expressed in Docket D.P.U. 96-100, all but eliminates vertical integration within the NEES companies, substantially mitigates NEP's contract termination charges to Mass. Electric, and reduces Mass. Electric's rates to its customers by an average of 18 percent. The Divestiture Transaction is a fundamental step toward the restructuring of the electric utility industry in Massachusetts, New England, and the nation. It is consistent with the public interest. It should be approved by the Department.

The Petition for Approval of the Divestiture Transaction is supported by Mr. Jesanis who summarizes the transaction itself; Mr. Widener, who explains the sale process; Mr. Levy, who explains that the transaction is consistent with the public interest; and Ms. Kenney who documents the reduction in NEP's contract termination charges to Mass. Electric and Nantucket following the Divestiture Transaction.

2. Petition for Financing Authority

As explained above, NEP is required under the IPP Contracts Transfer Agreement to secure financing authority for up to \$100 million to make Trigger Payments under that contract. The petition for financing authority is designed to meet that commitment. The petition is supported in the testimony of Mr. Cochrane.

3. New Rates for Mass. Electric and Nantucket

The final component of today's filing is new rates and tariffs for Mass. Electric to reflect the rate reduction following the completion of the divestiture, and to make two technical changes to Mass. Electric's and Nantucket's tariffs. First, streetlight rates are redesigned to break out energy charges that allow the implementation of the residual value credit, and second, the availability provisions of the standard offer provisions are revised to make it clear that standard offer service will not be available to retail customers who are new to the Mass. Electric and Nantucket service territories. The changes to the tariffs are explained by Mr. Zschokke.

4. Conclusion

Today's filing represents another significant step toward choice for all of our retail customers. We ask the Department to approve the petitions for approval of the Divestiture Transaction and Financing Authority and allow the rates to be implemented on the Divestiture Date.

Mary L. Cottrell, Secretary
October 1, 1997
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Thank you for your attention to our filing.

Very truly yours,

Thomas G. Robinson

TGR/afs

Enclosures

cc: Ronald F. LeComte, Esq., Hearing Officer
George B. Dean, Esq., Office of the Attorney General
David O'Connor, Division of Energy Resources

THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

D. P. U. 97 -

Application of New England Power Company for authorization and approval of (1) issuance of not exceeding \$100 million of new long term debt, which may be in the form of bonds, notes, or debentures, and (2) an exemption from the provisions of Section 15 of Chapter 164 of the General Laws.

To the Department of Public Utilities:

New England Power Company (NEP) respectfully represents:

1. That NEP is a Massachusetts corporation authorized to engage in and is engaging in the business of generating, purchasing, transmitting and selling electricity at wholesale to other utilities, principally its affiliates Massachusetts Electric Company (MECO), The Narragansett Electric Company (NEC), Nantucket Electric Company, and Granite State Electric Company (collectively, the Retail Affiliates), and that it is an electric company as defined in Chapter 164 of the General Laws of Massachusetts.

2. That the capitalization of the Company at June 30, 1997, was as follows:

General and Refunding Mortgage Bonds (G&R Bonds):

Series Y (94-3)	8.10%,	due December 22, 1997	\$3,000,000
Series W (93-2)	6.17%,	due February 2, 1998	4,300,000
Series W (93-4)	6.14%,	due February 2, 1998	1,300,000
Series W (93-5)	6.17%,	due February 3, 1998	5,000,000
Series W (93-7)	6.10%,	due February 4, 1998	10,000,000
Series W (93-9)	6.04%,	due February 4, 1998	29,400,000
Series Y (94-4)	8.28%,	due December 21, 1999	10,000,000
Series W (93-6)	6.58%,	due February 10, 2000	5,000,000
Series Y (95-1)	7.94%,	due February 14, 2000	5,000,000
Series Y (95-2)	7.93%,	due February 14, 2000	10,000,000

Series Y (95-3)	7.40%, due March 21, 2000	10,000,000
Series Y (95-4)	6.69%, due June 5, 2000	25,000,000
Series W (93-1)	7.00%, due February 3, 2003	25,000,000
Series Y (94-2)	8.33%, due November 8, 2004	10,000,000
Series K	7.25%, due October 15, 2015	38,500,000
Series X	variable due March 1, 2018	79,250,000
Series R	variable due November 1, 2020	135,850,000
Series S	variable due November 1, 2020	50,600,000
Series U	8.00%, due August 1, 2022	134,500,000
Series V	variable due October 1, 2022	106,150,000
Series Y (94-1)	8.53%, due September 20, 2024	5,000,000
Unamortized discounts on long-term debt		<u>(2,236,982)</u>
Total long-term debt		<u>700,613,018</u>
Long-term debt due in one year		<u>(53,000,000)</u>
		<u>647,613,018</u>
Short-term borrowings		132,925,000
Capital Stock and Surplus:		
Common Stock \$20 par value		
6,449,896 shares		128,997,920
6% Cumulative Preferred Stock		
\$100 par value 75,020 shares		7,502,000
Cumulative Preferred Stock, \$100 par value		
4.56% Series, 100,000 shares		10,000,000
4.60% Series, 80,140 shares		8,014,000
4.64% Series, 41,500 shares		4,150,000
6.08% Series, 100,000 shares		10,000,000
Premiums on capital stock		86,779,300
Other Paid-in Capital		289,818,180
Earned Surplus		<u>392,533,592</u>
Total Capital Stock & Surplus		937,794,992
Total Capitalization		\$1,718,333,010
(including short-term debt)		

All of the Common Stock is owned by New England Electric System; all of the Preferred Stock, General and Refunding Mortgage Bonds (other than Series U and X G&R Bonds held in trust for the benefit of the Massachusetts Industrial Finance Agency, Series R and

S G&R Bonds held in trust for the benefit of the Business Finance Authority of the State of New Hampshire, and Series K G&R Bonds held in trust for the benefit of the Connecticut Development Authority) are owned by the public.

3. That, on October 1, 1996, NEP announced its intention to divest its generating assets. Subsequently, NEP entered into an agreement with USGen New England, Inc.^{3/} (USGen NE) for purchase of NEP generating assets.

4. That after divestiture of the generating assets to USGen NE, NEP will operate primarily as a transmission business transmitting electricity from third party generators to its Retail Affiliates and to other non-affiliates pursuant to FERC-approved transmission tariffs. NEP will continue to hold interests in the following nuclear units: Millstone 3, Seabrook 1, Vermont Yankee, Maine Yankee, Connecticut Yankee, and Mass. Yankee. NEP will remain obligated to make payments under purchased power contracts, for which it will receive partial reimbursement from USGen NE, and for nuclear decommissioning, for which it will receive reimbursement in the form of contract termination charges and/or Tariff No. 1 revenues. NEP may also be obligated to honor contracts with several requirements customers other than MECO and NEC who have not chosen early termination and will do so by arranging for power supply for those customers.

5. That pursuant to the terms of an IPP Contracts Transfer Agreement entered into by NEP and USGen NE, NEP is obligated to use reasonable efforts to obtain

^{3/} USGen New England, Inc. is the new name of the acquiring company, which is referred to as USGen Acquisition Corporation in the original transaction contracts.

and maintain, from all regulatory authorities having jurisdiction, approvals for the issuance of not exceeding \$100 million of long-term securities for the purpose of funding Trigger Payments. Trigger Payments occur upon certain trigger events such as assignment of a power purchase agreement to USGen NE, termination of a power purchase agreement, or changes to an agreement resulting in a reduction of the obligations under a power purchase agreement. Accordingly, NEP proposes to issue not exceeding \$100 million of new long term debt, which may be in the form of bonds, notes, or debentures (NEP Notes) for the purpose of funding Trigger Payments. The NEP Notes may be issued under a mortgage indenture or other form of financing agreement.

6. That the character of the NEP Notes will be as follows:
 - (i) The NEP Notes will be issued in one or more series and/or issues with various terms of maturity, but no NEP Notes shall mature more than 30 years from the date as of which they are issued. The NEP Notes will be sold at a price, exclusive of accrued interest and expenses, of not less than 95% nor more than 100% of their principal amount; NEP requests that the Department authorize the sale of the NEP Notes at such prices pursuant to Section 15A of Chapter 164 of the General Laws.
 - (ii) The NEP Notes may or may not be callable, refundable, or puttable. The maturities, sinking funds, if any, call provisions and put provisions for a series and/or issue of NEP Notes will be determined primarily by

(a) market conditions at the time of issuance, and (b) the maturity schedule of NEP's other outstanding long term debt.

(iii) The NEP Notes would be sold by NEP through (a) one or more agents, (b) competitive bidding, (c) negotiation with underwriters, (d) negotiation directly with investors, (e) sale to one or more agents as principal for resale to investors, or (f) a combination of the foregoing. The method of sale will be determined by NEP based on market conditions, size of issue, maturity, and other factors.

(iv) The NEP Notes will bear interest at a rate not exceeding 11% per annum (unless an order of the Department is issued approving a higher rate).

7. That, in the event that the NEP Notes are issued pursuant to a mortgage indenture, NEP proposes to mortgage all or a portion of its property, assets, and franchises. NEP requests authority to execute one or more mortgage indentures mortgaging all or a portion of its property, assets, and franchises as security for the NEP Notes.

8. That the timing of the issuance of the NEP Notes is dependent, in part, upon market conditions. In order for NEP to take advantage of rapidly changing market conditions and to facilitate the use of a variety of pricing and distribution mechanisms,

NEP requests that it be authorized to issue NEP Notes from time to time through December 31, 2000.

9. That NEP is requesting an exemption from the competitive bidding requirements of Section 15 of Chapter 164 of the General Laws in connection with the sale of the NEP Notes.

WHEREFORE, NEP respectfully makes application:

A. That the Department vote that the issuance of not exceeding \$100 million of NEP Notes is reasonably necessary for the purposes set forth herein.

B. That the Department authorize, approve and vote one or more issues of NEP Notes of not exceeding \$100 million principal amount in the aggregate; provided that: (a) the NEP Notes shall be sold on such terms (but within the limits set forth in this Application) as shall be determined by the directors of NEP or by the officers of NEP pursuant to delegated authority; (b) the NEP Notes may take the form of debentures, bonds, or notes; (c) the NEP Notes may be secured by a mortgage of franchises and property now owned or hereafter acquired by NEP, and (d) the proceeds of the NEP Notes shall be used for the purposes set forth herein.

C. That the Department find, under Section 15A, that the sale of the NEP Notes at a price, exclusive of accrued interest and expenses, of not less than 95% nor more than 100% of their principal amount is in the public interest and that the Department authorize, approve and vote, under Section 15A, the sale of the NEP Notes at such price.

D. That, in connection with the issuance of NEP Notes, the Department authorize, approve and order as in the public interest an exemption from Section 15 of Chapter 164 of the General Laws such that NEP need not invite bids for the proposed transactions.

E. That the Department grant such other and further orders and approvals as the Department may deem necessary or proper in the circumstances.

Respectfully submitted,

NEW ENGLAND POWER COMPANY

By: _____
John G. Cochrane
Assistant Treasurer

DATE: October 1, 1997

Supporting Documentation (Provided under separate cover):

Direct Testimony of John G. Cochrane

Exhibit JGC-1	New England Power Company - Financial Exhibits
Exhibit JGC-2	Comparison of Net Utility Plant to Total Capitalization.

Counsel: Robert King Wulff, Esq.
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Westborough, Massachusetts 01582

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

NEW ENGLAND POWER COMPANY)	DOCKET NO. _____
MASSACHUSETTS ELECTRIC COMPANY)	
NANTUCKET ELECTRIC COMPANY)	

Petition for Approval of Divestiture Transaction

To the Honorable Department of Public Utilities:

1. This is a petition for approval pursuant to the Settlement approved in Docket D.P.U. 96-25 and pursuant to chapter 164, sections 76 and 96 of the General Laws for the Divestiture Transaction incorporated in the attached Contract Documents Relating to Sale (Volumes 1-5). Under the Divestiture Transaction, New England Power Company (“NEP”) will sell substantially all of its non-nuclear generating assets to USGen New England, Inc. (“USGenNE”)^{4/}. These contracts are summarized in the Attachment to this petition.

2. NEP is a Massachusetts corporation authorized to generate, transmit, purchase, sell and distribute electricity and is an electric company as defined in section 1 of chapter 164 of the General Laws.

3. NEP’s affiliates, Massachusetts Electric Company (“Mass. Electric”) and Nantucket Electric Company (“Nantucket”), serve retail electric customers in Massachusetts.

^{4/}USGen New England, Inc. is the new name of the acquiring company, which is referred to as USGen Acquisition Corporation in the original contracts.

4. NEP, Mass. Electric, and Nantucket are all signatories to a restructuring settlement (“Settlement”) that was approved by the Department in Docket D.P.U. 96-25. Under the Settlement, NEP agreed to divest its non-nuclear generating assets.

5. On August 5, 1997, NEP executed contracts with USGenNE under which it will divest substantially all of its non-nuclear generating assets in fulfillment of the commitment in the Settlement (the “Divestiture Transaction”).

6. As part of the Divestiture Transaction, New England Electric System will contribute to NEP its stock in Narragansett Energy Resources Company (“NERC”) and NEP will transfer the stock to USGenNE. To the extent that the acquisition of NERC stock by NEP requires the Department’s approval under General Laws, chapter 164, section 17A, that approval is requested in this petition.

7. The implementation of the Divestiture Transaction requires the approval of the Department under the express terms of the Settlement and under General Laws, chapter 164, sections 76 and 96. This petition requests that approval.

THEREFORE, Petitioners respectfully make application:

A. That the Department grant any and all authorizations necessary for the sale of facilities, the transfer of contracts, the acquisition of NERC stock by NEP, and any other actions required to implement the Divestiture Transaction that may be required under Massachusetts law, including, without limitation, approval pursuant to the Settlement, General Laws, chapter 164, sections 76 and 96, and General Laws, chapter 164, section 17A to the extent necessary. B. That the Department grant such other

and further orders and approvals as the Department may deem necessary or proper in the circumstances.

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Respectfully submitted,

NEW ENGLAND POWER COMPANY
MASSACHUSETTS ELECTRIC

COMPANY

NANTUCKET ELECTRIC COMPANY

by their attorneys,

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October 1, 1997